COMMISSION OF THE EUROPEAN COMMUNITIES

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# REPORT FROM THE COMMISSION

## Monitoring of Article 95 ECSC Steel aid cases, Sixteenth Report, November 2001

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## 1. SUMMARY

The Commission presents its Sixteenth Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 4 April 1994[1], 21 December 1994[2] and 29 November 1995[3].

In accordance with the above mentioned decisions, this sixteenth report will cover the following companies: Irish Steel, Siderurgia Nacional and Voest Alpine Erzberg. Since most conditions imposed by the Commission in its decisions approving the aid are already fulfilled, only the conditions still monitored by the Commission are addressed in this report.

### 1.1. Irish Steel, Ireland

Investments carried out at Irish Ispat up to 31 May 2001 did not modify the company's production capacities.

### 1.2. Siderurgia National, Portugal

The monitoring is focused on following up the plan for installation of the electric arc furnace, which according to a modified plan should be operational in the first quarter of 2002. The closing down of SN Serviços steel making facilities took place in March 2001 with the consequent reduction of workforce. In order to monitor the completion of the aided restructuring the Commission decided to continue the monitoring until 15 March 2002.

### 1.3. Voest-Alpine Erzberg, Austria

The price charged for iron ore was in line with market prices and higher than the price of imported iron ore in the monitored period.

The decision authorises ATS 52 million aid to be granted over 2001. In the first half of 2001 ATS 18 million has been disbursed.

### 1.4. Outstanding issues from previously monitored companies.

- **ILP**

The total production capacity of the company for crude steel and hot rolled products in the first semester of 2001 has not been increased.

- **EKO Stahl**

The limitation of the capacity of the new hot-rolling mill to 1.5 million t/y up until the end of January 2005 is guaranteed by an electronic device that makes it technically impossible to exceed that ceiling. The system operates reliably and the records of the quantities produced are regularly submitted to the Commission.

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1 Decisions No 94/257/ECSC (OJ L 112, 3.5.1994, p. 52, 58, 64, 71, 77)
2 Decision No 94/1075/ECSC (OJ L 386, 31.12.1994, p. 18)
3 Decision No 96/269/ECSC (OJ L 94, 16.4.1996, p. 17)

## 2. OVERVIEW

**Siderurgia Nacional, Irish Steel, Voest Alpine Erzberg**

| Company | Aid Article 95 ECSC | | Aid Steel Aid Code | | Capacity reduction | | | | Redundancies | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Required | | Achieved | | | | |
| | Authorized | Granted | Authorized | Granted | kt/y | Date | Kt/y | Date | Plan | Achieved | |
| SN | PTE 60.12 billion (€ 306 million) | 100 % | PTE 5,925 million (€ 29.55 million) | PTE 3,401.76 million (€ 16.97million) | 140 | 31.12.95 | 100% | 31.12.95 | 1798 | 2618 | |
| IRISH STEEL | IEP 38.298 million (€ 47.7 million ) | 100% | | | | | | | 205 by 1996 | 209 by 1996 | |
| VAEG | ATS 408 million (€ 29.7 million) | ATS 292.8 million (€ 21.28 million) | - | - | - | - | - | - | 71 by 2002 | 100 | Redundancies ahead of schedule. |

## 3. IRISH STEEL, IRELAND

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)[4] to approve aid under Article 95 ECSC linked to the sale of Irish Steel Ltd (ISL) to Ispat International amounting to a maximum of IRL£ 38.298 million[5], serving various purposes toward the restructuring of Irish Steel (for details see the previous monitoring reports).

Under the terms of the decision the aid was approved subject to various conditions (for details see previous monitoring reports). The Irish authorities submitted on 16th March 2001 the eleventh monitoring report in accordance with the Commission's decision. This report included a set of financial data and ratios in line with the Annex to that decision.

The freeze on production capacity up to the end of May 2001 has been respected. Investments carried out by Irish Ispat Ltd. in the first half of 2001 did not modify the company's production capacities and related to replacement and maintenance.

Irish Ispat decided to cease all operations in mid-June 2001. A liquidator was appointed to the company on 28 June 2001

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4 OJ L 121 of 21/5/1996, p. 6

5 1 € = IRL 0,7876.

## 4. SIDERURGIA NACIONAL, PORTUGAL

### 4.1. Introduction

On 12 April 1994 the Commission approved[6] PTE 60.12 billion[7] aid to the Portuguese public steel undertaking *Siderurgia Nacional* under Article 95 of the ECSC Treaty (see details in the previous monitoring reports). This aid was **paid** in 1994 and 1995.

In September 1994 the Commission approved under the Fifth Steel Aid Code:[8]

– PTE 4 925 million in social aid,

– PTE 1 000 million in aid for environmental protection.

By the end of the first half of 2001, social aid amounting to PTE 3 401.76 million has been paid.

Authorisation of the aid was subject to several conditions. The following conditions are still monitored by the Commission :

– replacement of the blast furnace at Seixal by an electric arc furnace (**outstanding**),

– total workforce to be reduced by 1798 employees by the end of 1996

The present report covers developments up to 30 June 2001 on the basis of information provided by the Portuguese Government in its sixteenth monitoring report, which was submitted on 17 September 2001. The present report concentrates on the conditions still monitored by the Commission.

### 4.2. Investments

**SN Longos – Electric arc furnace**

Under the initial restructuring plan (*PERG*), the blast furnace was to be replaced by an electric arc furnace by the beginning of 1996. The Portuguese Government's decision to privatise the operating companies immediately, which was not envisaged by the initial restructuring plan, and the approach taken by the authorities of leaving the final investment decision to the new private shareholders in *SN Longos* have led to a five-year delay in installation of the electric arc furnace (cf. previous reports).

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6 OJ L 112, 3.5.1994, p. 52.

7 1 € = 200,482 PTE. Total amount 299 million €.

8 OJ C 390, 31.12.1994, p. 18.

The revised timetable for the completion of the investment is as follows:

| | |
|---|---|
| Civil construction works | 2nd semester 2001; partially in process |
| Installing the equipment | 2nd and 3rd quarters 2001 |
| Start of operations | 4th quarter 2001/1st quarter 2002 |

In view of this delay, the Commission decided to continue the monitoring period till 15 March 2002[9].

### 4.3. Evolution of workforce

The initial restructuring plan (*PERG*) envisaged a reduction in the workforce by 1798 at the end of the restructuring period. The Portuguese Government's decision to privatise the operating companies immediately, will lead to a reduction of 2618 in 2002. With the closure of the blast furnace in March 2001, only 44 workers remain in SN Serviços which are needed for the dismantling of the installations.

The following table shows the evolution of the workforce and the forecasts:

| | 1999 | 2000 | 2001* |
|---|---|---|---|
| SN Longos + Lusosider | 710 | 648 | 590 |
| SN Serviços | 878 | 795 | 44** |
| Total workforce | 1588 | 1443 | 634 |
| Planned total workforce | 1410 | 1410 | 1410 |
| Deviation from plan | 178 | 33 | -776 |

*Expected reduction during the year 2001

**Workers needed for dismantling the installations

9 SG (2001) D/285564 of 31.01.2001

**Financing of redundancies:**

| | Nature | Number of workers | Art 56 ECSC | State (Art 56 ECSC) | Company[1] | Total |
|---|---|---|---|---|---|---|
| | | | Costs in PTE million | | | |
| **1993 - 2000 *** | Early retirement | 1094 | 294.25 | 294.25 | 36.3 | 624.9 |
| | Redundancy[2] | 670 | 310.31 | 310.31 | 2994.9 | 3615.63 |
| | Other | 111 | 0 | 0 | 0 | 0 |
| | **Total** | 1875 | 604.56 | 604.56 | 3031.2 | 4240.53 |
| **2001 first half** | Early retirement | 562 | 115.7 | 115.7 | - | 231.4 |
| | Redundancy[2] | 193 | 38.7 | 38.7 | 1495.4 | 1572.8 |
| | Other | 3 | | | | |
| | **Total** | 758 | 154.4 | 154.4 | 1495.4 | 1804.2 |

* For details on the period 1993 - 2000 see previous Reports.

1 In accordance with Article 4(1) of the Fifth (until 1996 included) respectively the Sixth Steel Aid Code (as from 1997), a contribution from the State defrays 50% of these costs.

2 Through mutual agreement (negotiated redundancy).

In the first half of 2001, PTE 732.6 million in social aid authorised under Article 4 of the Sixth Steel Aid Code was disbursed.

## 4.4. Sales

The sales of billets on the Portuguese market by *SN Serviços* go exclusively to *SN Longos*. Prices for these products are fixed on normal market conditions for a period of three months. Residual steel production is sold on the market against market prices (Metal Bulletin spot prices). The average prices achieved by the different product groups were given in the monitoring report. The Commission has compared these prices with the average market prices and considers them to be within the normal range.

After the closure of the blast furnace, the activity of SN-Serviços is limited to:

– dismantling, removal and demolition of existing plant;

– environmental rehabilitation of the disused industrial area and solution of the long-standing environmental pollution problems which remained the responsibility of the previous shareholder;

– promoting the conversion and refurbishment of areas previously used for steel production, creating the necessary conditions for the location of new industrial or service activities;

– managing the closure processes in the different areas of the company's former business, focusing particularly on personnel and financial questions.

### 4.5. Financial performance

The Portuguese authorities provided a full set of financial data and financial ratios in line with the Annex to the Commission’s Decision.

According to the Portuguese authorities, the deterioration of SN Serviços’ financial performance was chiefly due to an increase in depreciation[10] and provisions[11].

The closure of the blast furnace also resulted in an extraordinary charge owing to the inclusion in the accounts of the total compensation paid in respect of termination of the employment contracts of workers to be laid off from April 2001 onwards.

Another reason for the deterioration in the results in 2000 was the increase in the costs of raw and other materials stemming from the rise in their average acquisition price caused by the successive increases in market rates for maritime freight and the strong appreciation of the US dollar.

**SN Serviços**

| (PTE million) | 1999 | 2000 | First semester 2001* |
|---|---|---|---|
| Sales and services performed | 19 438 | 20 670 | 3 776 |
| Other income | -949 | -1 167 | -328 |
| | | | |
| Cost of sales | 13 053 | 14 547 | 2 771 |
| Personnel costs | 4 081 | 3 959 | 1 314 |
| Depreciation + provisions | 954 | 4 476 | 1 009 |
| Net financial charges | 211 | 703 | 228 |
| Other costs | 3 171 | 3 059 | 1 266 |
| Operating result | -2 981 | -6 538 | - 3 140 |
| Gross profit | -2 611 | -7 271 | - 2 778 |

* provisional figures

10 The company decided, on prudential grounds, to redefine the criteria for determining the useful life of plant to be decommissioned, the book value of which was deemed to be virtually nil in April 2001.

11 In order to cover any losses that might be incurred in the sale of stocks held at plants that have been or are to be decommissioned and which have been entered on the balance sheet at their respective historic cost.

### 4.6. Aid

The aid authorised under Article 95 of the ECSC Treaty has been paid in six instalments between March 1994 and June 1995 as explained in the fourth monitoring report. The environmental aid approved under Article 3 of the Fifth Steel Aid Code has not so far been paid. The use of the social aid approved under Article 4(1) of the Fifth, respectively the Sixth Steel Aid Code is explained above under 4.3 (financing of redundancies).

## 5. VOEST ALPINE ERZBERG GMBH, AUSTRIA

### 5.1. Introduction

On 29 November 1995 the Commission approved[12] state aid to *Voest Alpine Erzberg GmbH* (VAEG) to enable it to close down its mining operations gradually up to the year 2002. Approved aid amounts to ATS 272 million to cover operating losses over the period 1995-2002 and ATS 136 million[13] to cover the costs of closing down mines safely and in an environmentally friendly manner.

Authorisation of the aid was subject *inter alia* to the following conditions:

– the annual aid ceilings and the production ceiling as given in the table above were not to be exceeded (**so far observed**),

– the amount of operating aid was not to exceed the difference between production costs and revenues (so far **observed**),

– the price charged for iron ore was to be in line with market prices and was not to be lower than the price of imported iron ore (so far **observed**).

This report covers developments up to 30 June 2001 on the basis of information provided by Austria in its twelfth monitoring report, which was submitted, in line with the Commission's request, on 20 September 2001.

### 5.2. New monitoring report

#### *5.2.1. The company*

The company *Voest Alpine Erzberg Gesellschaft mbH* (VAEG) is held by *ÖIA Bergbauholding Aktiengesellschaft*, which in turn belongs to *Österreichische lndustrieholding Aktiengesellschaft*, an industrial holding company wholly owned by the Austrian State. VAEG is involved in the mining of low-density iron ore (~32 % Fe). The company has only one client, *Voest Alpine Stahl AG* (VASA), which was privatised in the autumn of 1995.

#### *5.2.2. Operating aid*

5.2.2.1. Production and sales

In the first half of 2001 VAEG produced 447 000 tonnes of iron ore with an average content of 33.6% Fe and 509,100 tonnes of low grade products which VASA can use for the blast furnace burden (*Möllerzusatzmaterial*). These quantities were sold and delivered to VASA. Since in 2000 VAEG's production exceeded in 9 000 tonnes the ceiling for that year, the Austrian authorities committed to deduct this surplus from the authorised ceiling for 2001[14], which stands therefore at 991 000 tonnes.

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12 OJ L 94, 16.4.1996, p. 17

13 1 € = ATS 13,7603. ATS 272 million = 19,76 million €; ATS 136 million = 9,88 million €

14 Cf. 15th Report point 6.2.2.1

5.2.2.2. Production costs

In the first half of 2001, the production costs for iron ore and the low grade product, including closure and rehabilitation operations, stood at ATS 134.8 per tonne. A detailed overview of production costs is given in the Annex.

5.2.2.3. Pricing

The standard-grade iron ore was sold at ATS 139.50 (€ 10.14) per tonne. This standard price has been set in November 2000 for the whole of 2001.

The low-grade material (*Möllerzusatzmaterial*) was sold at ATS 83 (€ 6.03) per tonne, fixed on the basis of the market price for lime gravel (*Kalkschotter*).

The average price for deliveries of iron ore and low-grade material (*Möllerzusatzmaterial*) results in ATS 109.42 (€ 7.95) per tonne. Including the costs of transport to VASA/Linz, the price charged was ATS 653.61 (€ 47.50) per tonne Fe.

The information submitted by Austria in its twelfth report confirm the information given by Voest Alpine Rohstoffbeschaffungs GmbH, a subsidiary of Voest-Alpine Stahl AG responsible for the purchase of raw material, that the above price per tonne Fe for iron ore is higher than the comparable price it has to pay for imported iron ore.

It may therefore be concluded that the prices charged in the first half of 2001 were not lower than required under Article 2 of the Commission's Decision of 29 November 1995.

5.2.2.4. Operating aid

The total losses incurred by VAEG in the first half of 2001 were ATS 24.66 million (€ 1.79 million). Of the total losses sustained in this period, ATS 4.9 million related to closure operations.

In the first half of 2001, ATS 18 million has been disbursed as operating aid while the amount authorised by the Commission for this year is ATS 26 million.

*5.2.3. Closure aid*

In the first half of 2001, no closure aid has been disbursed while the amount authorised by the Commission for this year is ATS 26 million.

### *5.2.4. Aid payments in relation to aid authorised*

| | Total aid | | Operating aid | | Closure aid | |
|---|---|---|---|---|---|---|
| (ATS million) | Authorised | Paid | Authorised | Paid | Authorised | Paid |
| 1995-2000* | 306 | 274.8 | 226 | 211 | 80 | 63.8 |
| 2001 | 52 | 18 | 26 | 18 | 26 | |
| 2002 | 50 | | 20 | | 30 | |
| **Total** | **408** | **292.8** | **272** | **229** | **136** | **63.8** |

* For details on the period 1995 - 2000 see previous Reports

### *5.2.5. Evolution of workforce*

The plan for reducing the workforce is as follows:

| **Workforce** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** |
|---|---|---|---|---|---|---|---|---|
| Production | 280 | 276 | 273 | 273 | 254 | 242 | 210 | 181 |
| Closure operations | 6 | 10 | 13 | 13 | 20 | 20 | 31 | 34 |
| **Total** | **286** | **286** | **286** | **286** | **274** | **262** | **241** | **215** |

Departing from the original plan the total workforce was reduced to 186 by 30th June 2001. Reduction of workforce is therefore ahead of plan.

# ANNEX

## Comparison of production costs and revenues, first half of 2001

| | Iron ore | | Low-grade product | | Closure and securing | Total | |
|---|---|---|---|---|---|---|---|
| **Production** (tonnes) | 447 000 | | 509 100 | | | 956 100 | |
| **Costs** | (ATS 000') | (ATS/tonne) | (ATS 000') | (ATS/tonne) | (ATS 000') | (ATS 000') | (ATS/tonne) |
| Production | 13 938 | 31.18 | 10 692 | 21.00 | | 24 630 | 25.76 |
| Extraction | 28 111 | 62.89 | 10 707 | 21.03 | | 38 818 | 40.60 |
| Processing | 22 452 | 50.23 | 7 637 | 15.00 | | 30 089 | 31.47 |
| Quality control | 4 513 | 10.10 | 2 036 | 4.00 | | 6 549 | 6.85 |
| Transport | 2 928 | 6.55 | 3 335 | 6.55 | | 6 263 | 6.55 |
| Overheads | 6 893 | 15.42 | 7 850 | 15.42 | | 14 743 | 15.42 |
| Cost related to exhausted parts of mine | 2 887 | 6.46 | | | | 2 887 | 3.02 |
| Closure (technical and social measures) | | | | | 4 900 | 4 900 | 5.12 |
| **Total cost of sales** | 81 722 | 182.82 | 42 257 | 83.00 | 4 900 | 128 879 | 134.80 |
| **Revenues:** | Iron ore | | Low grade product | | | Total | |
| Sales (tonnes) | 447 000 | | 509 100 | | | 956 100 | |
| Sales (value) | 62 356 | 139.50 | 42 257 | 83.00 | | 104 613 | 109.42 |
| Deduction for difference in quality | -396 | | | | | -396 | |
| **Total** | 61 960 | 138.61 | 42 257 | 83.00 | | 104 217 | 109.00 |

**Difference**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Operating result | -19 762 | | | | -4 900 | -24 662 | |

**Aid**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 18 000 | | | | | 18 000 | |